

Message Text

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ORIGIN EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 ISO-00 L-03
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FM SECSTATE WASHDC
TO AMEMBASSY ACCRA
AMEMBASSY ABIDJAN
AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRASILIA
AMEMBASSY BRUSSELS
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PORT OF SPAIN
AMEMBASSY QUITO
AMEMBASSY LOME
AMEMBASSY TOKYO
AMEMBASSY YAOUNDE

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USEEC

E.O. 11652: N/A

TAGS: ETRD, ICCO
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SUBJECT: RENEGOTIATION OF INTERNATIONAL COCOA AGREEMENT,
U. S. PROPOSALS

REF: STATE 227952

1. U.S. PROPOSALS FOR REVISION OF 1975 INTERNATIONAL COCOA

AGREEMENT HAVE NOW BEEN PRESENTED TO ICCO EXECUTIVE DIRECTOR HACKMAN FOR CIRCULATION TO ICCO MEMBERS PARTICIPATING IN AD HOC COMMITTEE ON REVISION OF INTERNATIONAL COCOA AGREEMENT, WHICH WILL MEET IN LONDON JUNE 12-16. FOR YOUR INFORMATION, WE ARE PROVIDING POSTS WITH FOLLOWING BRIEF OUTLINE USG PROPOSALS BUT PREFER THEY NOT BE DISCUSSED WITH HOST GOVERNMENTS UNTIL AFTER LONDON MEETING.

2. U.S. HAS PROPOSED THAT THE COCOA AGREEMENT BE BASED ON AN INTERNATIONAL BUFFER STOCK AS THE ONLY MEANS OF PRICE STABILIZATION FOR COCOA:

- (A) THE BUFFER STOCK WOULD OPERATE TO STABILIZE PRICES WITHIN A 50 PERCENT RANGE, 25 PERCENT ABOVE AND 25 PERCENT BELOW THE MIDPOINT. FOR EXAMPLE, WITH MIDPOINT AT 80 CENTS, BUFFER STOCK WOULD BUY COCOA BETWEEN 60-64 CENTS AND SELL BETWEEN 96-100 CENTS.

- (B) BUFFER STOCK PURCHASES WOULD BE MANDATORY IF THE INDICATOR PRICE DROPPED TO 20 PERCENT BELOW THE MIDPOINT OF THE PRICE RANGE AND SALES WOULD BE MANDATORY IF THE INDICATOR ROSE 20 PERCENT ABOVE THE MIDPOINT.

- (C) AT THE DISCRETION OF THE BUFFER STOCK MANAGER, THE BUFFER STOCK COULD PURCHASE COCOA IF THE INDICATOR PRICE DROPPED 15 PERCENT BELOW THE MIDPOINT OF THE PRICE RANGE. LIMITED OFFICIAL USE

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LIKEWISE THE BUFFER STOCK COULD SELL IF INDICATOR PRICE ROSE TO 15 PERCENT ABOVE THE MIDPOINT OF THE PRICE RANGE.

- (D) COUNCIL TO ESTABLISH AN ECONOMIC CONDITIONS AND INVESTMENT COMMITTEE. COMMITTEE WOULD UNDERTAKE DETAILED ANALYSIS OF FACTORS AFFECTING SUPPLY/DEMAND AND PRICE, INCLUDING POLICIES AND REGULATIONS OF MEMBER GOVERNMENTS, IN ORDER TO ASSURE ADEQUATE RETURNS TO GROWERS AND AN EXPANDING MARKET; MAKE RECOMMENDATIONS TO THE COUNCIL AT ALL STAGES OF PRICE RANGE REVIEW AND AT OTHER APPROPRIATE TIMES; AND OVERSEE THE OPERATIONS OF THE BUFFER STOCK MANAGER.

- (E) COUNCIL WOULD BE AUTHORIZED TO PERIODICALLY REVIEW AND, IF APPROPRIATE, ADJUST THE PRICE RANGE IN THE AGREEMENT, BUT WOULD BE REQUIRED TO REVIEW THE PRICE RANGE AT LEAST ONCE EVERY TWO YEARS.

3. EMBASSY LONDON AND DEPARTMENT HAVE BEEN CONDUCTING INFORMAL CONSULTATIONS ON OUR PROPOSALS WITH MAJOR EXPORTERS AND IMPORTERS PRIOR TO LONDON TALKS. U.S. REPS HAVE STRESSED OUR CONTINUED FIRM OPPOSITION TO CURRENT

AGREEMENT AND USG'S UNWILLINGNESS ACCEPT A COCOA AGREEMENT
BASED ON EXPORT QUOTAS.

4. AS AN IMPORTER AND MAJOR COCOA CONSUMER, U.S. IS
CONCERNED WITH THE DISTORTING EFFECTS THE PRESENT AGREE-
MENT WOULD HAVE ON THE WORLD COCOA ECONOMY AND BELIEVES
THE AGREEMENT'S RELIANCE ON EXPORT QUOTAS RAISES SERIOUS
QUESTIONS ABOUT THE AGREEMENT'S EQUITY. FOLLOWING IS
ILLUSTRATIVE OF USG'S OBJECTIONS TO AGREEMENT: ICCO'S
ESTIMATE FOR TOTAL DEMAND FOR 1977/78 EXCEEDS TOTAL WORLD
PRODUCTION; IN SOME COUNTRIES TOTAL 1977/78 PRODUCTION
EXCEEDS THE ASSIGNED QUOTA WHILE OTHER COUNTRIES HAVE
QUOTAS IN EXCESS OF THEIR PRODUCTION. ASSUMING THAT PRO-
DUCERS EITHER EXPORT THEIR ENTIRE CROP IF QUOTA IS NOT
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RESTRICTIVE OR EXPORT THEIR ENTIRE QUOTA IF PRODUCTION
IS IN EXCESS OF QUOTA, CONSUMERS WOULD RECEIVE APPROXI-
MATELY 1110.9 THOUSAND METRIC TONS AT 100 PERCENT OF
QUOTA RATHER THAN THE 1223.7 THOUSAND METRIC TONS ORIGI-
NALLY DETERMINED BY ICCO. IN EFFECT THIS AMOUNTS TO A
9.3 PERCENT CUT WHEN QUOTAS BEGIN.

5. FOR ABIDJAN AND BRASILIA: IVORY COAST AND BRAZIL
WOULD BEAR HEAVIEST BURDEN OF EXPORT QUOTA IMPOSITION.
IVORY COAST WOULD HAVE TO RETAIN 37.1 THOUSAND METRIC TONS
OF 1977/78 CROP AND BRAZIL 32.6 THOUSAND METRIC TONS.
UNDER 1975 COCOA AGREEMENT, COCOA IN EXCESS OF INITIAL
IMPOSITION OF QUOTA CANNOT BE SOLD TO BUFFER STOCK BUT
MUST BE RETAINED IN PRODUCING COUNTRY. COST OF SUCH
ACTIONS AT CURRENT INITIAL PRICE DEFENSE LEVEL (73 CENTS)
WOULD BE DOLS. 54.2 MILLION FOR IVORY COAST AND DOLS.
47.6 MILLION FOR BRAZIL. VANCE

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